

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Capital Region Airport Authority</u>	County Ingham
Audit Date June 30, 2004	Opinion Date September 10, 2004	Date Accountant Report Submitted To State: November 3, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State Michigan	ZIP 48823
Accountant Signature <i>Plante & Moran, PLLC</i>			



CAPITAL REGION AIRPORT AUTHORITY

Financial Report With Supplemental Information

June 30, 2004

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CAPITAL REGION AIRPORT AUTHORITY

Financial Report With Supplemental Information

June 30, 2004

Capital Region Airport Authority

Contents

Report Letter	1-2
Management's Discussion and Analysis (Unaudited)	3-8
Basic Financial Statements	
Statement of Net Assets	9
Statement of Revenue, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	11-12
Notes to Financial Statements	13-26
Other Supplemental Information	
Schedule of Operating Revenue and Expenses - Budget and Actual	27

Independent Auditor's Report

To the Board of Directors
Capital Region Airport Authority

We have audited the basic financial statements of the Capital Region Airport Authority (the Authority), as of June 30, 2004 and 2003, and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as identified in the table of contents is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The accompanying other supplemental information is presented for purposes of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Authority has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*, and related statements, as of July 1, 2002. In adopting this statement, the financial statements now include a Management's Discussion and Analysis.

Board of Directors
Capital Region Airport Authority

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 10, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Plante & Moran, PLLC

September 10, 2004

Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited)

The following Management's Discussion and Analysis (MD&A) of the Capital Region Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the Balance Sheet, the Statement of Operations, and other statistical information contained in this report.

Financial Operations Highlights

- Operating Revenues increased by 8.2 percent from \$6,342,254 in 2003 to \$6,859,700 in 2004, due to airport traffic increases, reflected most prominently in parking lot fees and concessions.
- Mason Jewett Field's revenue increased 64.6 percent from \$142,558 in 2003 to \$234,655 in 2004, primarily from increased fuel sales.
- Property tax revenues authorized and levied increased from approximately \$676,000 to \$3.1 million to fund a significant increase in the Authority's airport and air service development program.
- Operating expenses, exclusive of depreciation, increased 17 percent from \$6,314,372 in 2003 to \$7,386,918 in 2004, primarily due to increased marketing expenses for the airport and air service development program.
- Salaries and Benefits increased 12 percent from \$3,540,133 in 2003 to \$4,009,146 in 2004 due to increased health insurance and MERS contribution requirements.

Financial Operations Overview

Capital Region Airport Authority's Mission "Provide excellent airport facilities and services that exceed our customers' expectations", has driven a strategic plan which clearly enumerates directives designed to promote the recovery of the Authority's passenger base through increased quality and quantity of air service provided at the Capital Region Airport Authority. Thus, management's core objective is to effectively use present revenues generated to implement these growth oriented directives and to solidify the airport's infrastructure to handle the resulting increase in air service activity. The key performance indicators for the Authority, therefore, relate to changes in net assets, as well as non financial measurements including (but not limited to) passenger count, aircraft landings, and parking lot activity.

Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Financial Position Summary

A condensed summary of the Authority's changes in net assets for the years ended June 30 is presented below:

	2004	2003
Assets		
Current	\$ 2,815,449	\$ 1,782,691
Non-current	56,279,810	53,790,154
Total assets	<u><u>\$ 59,095,259</u></u>	<u><u>\$ 55,572,845</u></u>
Liabilities		
Current	\$ 1,029,295	\$ 625,991
Revenue Bonds	13,954,638	14,662,558
Other	326,456	350,601
Total liabilities	<u><u>\$ 15,310,389</u></u>	<u><u>\$ 15,639,150</u></u>
Net Assets		
Unrestricted	\$ 1,942,806	\$ 1,318,318
Restricted	5,397,316	\$ 4,738,972
Invested in capital	36,444,748	33,876,405
Total net assets	<u><u>\$ 43,784,870</u></u>	<u><u>\$ 39,933,695</u></u>

Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Summary of Changes in Net Assets

A condensed summary of the Authority's changes in net assets for the years ended June 30 is presented below:

	<u>2004</u>	<u>2003</u>
Operating revenue	\$ 6,859,700	\$ 6,342,254
Operating expense	<u>10,509,853</u>	<u>9,457,841</u>
Operating loss	(3,650,153)	(3,115,587)
Nonoperating revenue (expenses):		
Tax revenue	3,128,393	676,530
Investment income	44,372	86,499
Interest expense	(770,679)	(789,766)
Miscellaneous, net	4,690	34,460
Passenger facility charges	<u>1,274,202</u>	<u>966,076</u>
Net nonoperating revenue	<u>3,680,978</u>	<u>973,799</u>
Net income (loss) before capital contributions	30,825	(2,141,788)
Capital contributions	<u>3,820,350</u>	<u>5,145,793</u>
Net income	<u>\$ 3,851,175</u>	<u>\$ 3,004,005</u>

Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Capital Asset and Debt Administration

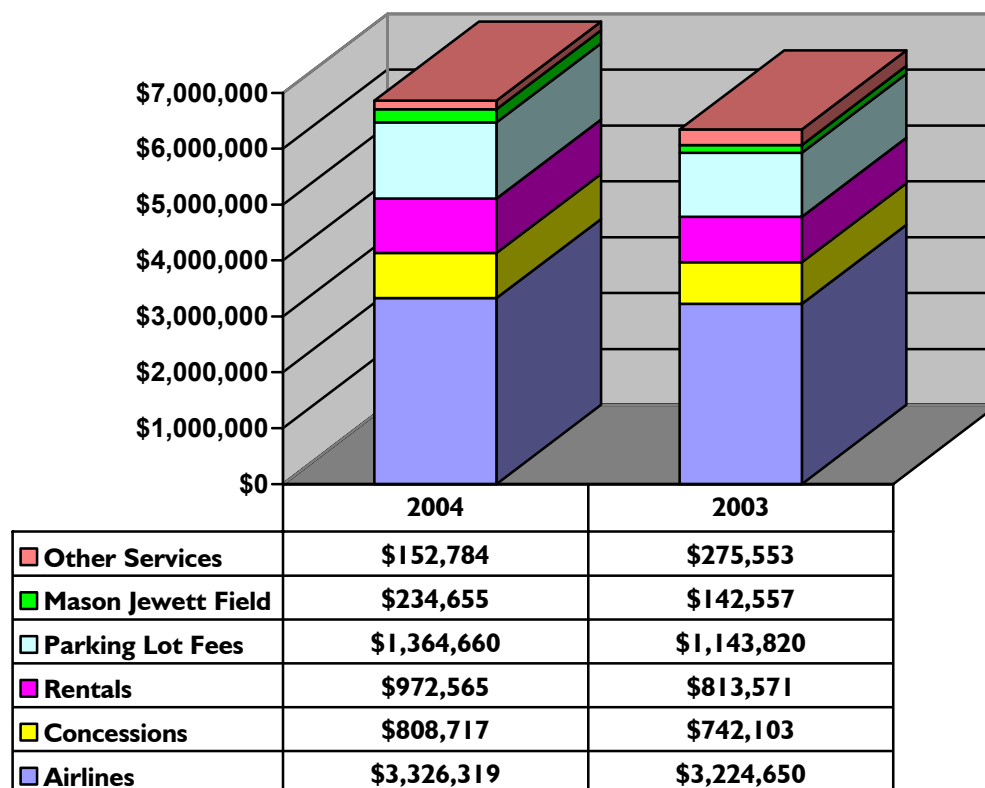
Capital assets consisting of land, airport improvements in progress, buildings, taxiways, runways, machinery, and equipment increased by \$4,983,358 primarily due to the security upgrade project and security enhancement project.

At year-end, the Authority had outstanding bonds totaling \$13,954,638.

Revenues

The following chart depicts the Authority's operating revenue sources and their relationship to the total operating revenues for the year ended June 30, 2004.

Operating Revenue



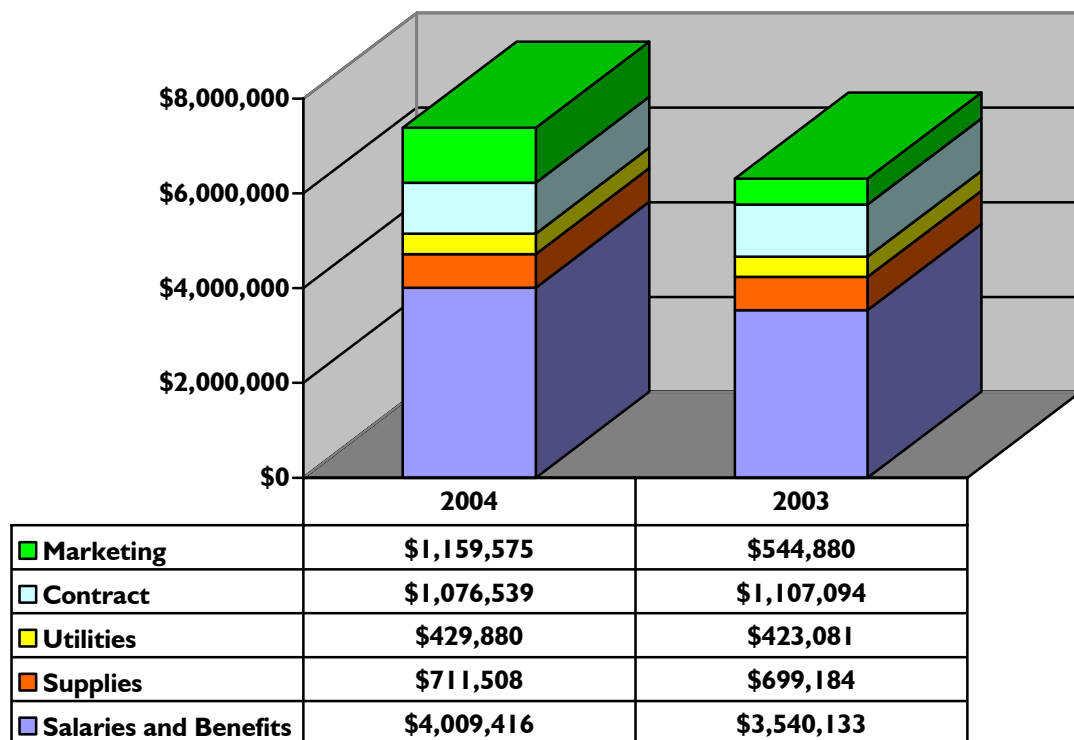
Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Expenses

The following chart depicts the Authority's major operating expense categories and their relation to the total operating expenses for the year ended June 30, 2004.

Operating Expenses



Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Airline Rates and Charges

The Authority sets rates and charges annually by adoption of a resolution based on a compensatory (cost of services) methodology. This methodology utilizes the Authority's Statement of Operations and Debt Service requirements to allocate these costs to the various air service providers. These rates include the terminal rental rates, landing fees, and airline apron fees. These rates for the past three years are as follows:

Year Ended June 30	2004	2003
Terminal rental (average per square foot)	\$ 34.48	\$ 32.15
Landing fees (per 1,000 pounds)	2.06	2.06
Airline apron fee (per 1,000 pounds)	0.26	0.27

Financial Statements

Capital Region Airport Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are depreciated (except land and construction-in-progress) over their useful lives. Construction-in-progress projects are closed and transferred to their respective capital accounts upon completion.

Capital Region Airport Authority

Statement of Net Assets

	June 30	
	2004	2003
Assets		
Current Assets		
Cash and investments (Note 2)	\$ 1,720,284	\$ 641,540
Trade accounts receivable, less allowance for doubtful accounts of \$61,000 and \$60,000, respectively	875,257	991,291
Passenger facility charges receivable	182,454	79,298
Prepaid expenses and other assets	37,454	70,562
Total current assets	2,815,449	1,782,691
Restricted Assets (Notes 2 and 3)	5,397,316	4,738,972
Other Assets	483,108	512,219
Capital Assets (Note 4)	50,399,386	48,538,963
Total assets	<u>\$ 59,095,259</u>	<u>\$ 55,572,845</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 874,506	\$ 493,475
Compensated absences (Note 6)	154,789	132,516
Total current liabilities	1,029,295	625,991
Noncurrent Liabilities		
Revenue Bonds payable, excluding current installments (Note 5)	13,954,638	14,662,558
Compensated absences (Note 6)	326,456	350,601
Total liabilities	15,310,389	15,639,150
Net Assets		
Invested in capital assets - Net of related debt	36,444,748	33,876,405
Restricted (Note 3)	5,397,316	4,738,972
Unrestricted	1,942,806	1,318,318
Total net assets	43,784,870	39,933,695
Total liabilities and net assets	<u>\$ 59,095,259</u>	<u>\$ 55,572,845</u>

Capital Region Airport Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating Revenue (Note 7)		
Airfield	\$ 1,544,540	\$ 1,512,549
Terminal	2,877,090	2,555,233
Leased sites	2,139,504	1,845,215
Airline security screening	63,911	114,302
Mason Jewett Field	234,655	142,558
Grant revenue	-	172,397
Total operating revenue	6,859,700	6,342,254
Operating Expenses		
Airfield	625,625	612,752
Terminal	1,278,529	1,267,388
Fire and security	1,543,526	1,260,560
Administrative	2,648,695	2,884,726
Depreciation	3,122,935	3,143,469
Mason Jewett Field	245,416	178,732
Airport development	1,045,127	110,214
Total operating expenses	10,509,853	9,457,841
Operating Loss	(3,650,153)	(3,115,587)
Nonoperating Revenue (Expenses)		
Tax revenue	3,128,393	676,530
Investment income	44,372	86,499
Interest and finance charges	(770,679)	(789,766)
Miscellaneous, net	4,690	34,460
Passenger facility charge revenue	1,274,202	966,076
Total nonoperating revenue (expenses)	3,680,978	973,799
Net Income (Loss) - Before capital contributions	30,825	(2,141,788)
Capital Contributions	3,820,350	5,145,793
Net Income	3,851,175	3,004,005
Net Assets - Beginning of year	39,933,695	36,929,690
Net Assets - End of year	\$ 43,784,870	\$ 39,933,695

Capital Region Airport Authority

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows From Operating Activities		
Payments to employees	\$ (3,964,847)	\$ (3,493,468)
Payments to suppliers	(3,009,667)	(2,671,574)
Charges and rentals	6,975,734	7,350,863
Net cash provided by operating activities	1,220	1,185,821
Cash Flows From Noncapital Financing Activities		
Taxes collected	3,128,393	676,530
Cash Flows From Capital and Related Financing Activities		
Principal payments on revenue bonds payable	(745,000)	(725,000)
Interest paid	(704,625)	(724,230)
Capital expenditures, net	(1,163,008)	(1,247,584)
Miscellaneous receipts	4,690	34,411
Passenger facility charges collected	1,171,046	937,893
Net cash used in capital and related financing activities	(1,436,897)	(1,724,510)
Cash Flows From Investing Activities		
Proceeds from sale of investments	864,131	1,142,387
Purchase of investments	(1,638)	(1,213,334)
Interest earned on investments	44,372	86,499
Net cash provided by investing activities	906,865	15,552
Net Increase in Cash and Cash Equivalents	2,599,581	153,393
Cash and Cash Equivalents - Beginning of year	1,472,715	1,319,322
Cash and Cash Equivalents - End of year (Note 2)	\$ 4,072,296	\$ 1,472,715

Supplemental Cash Flow Information - Capital contributions amounting to \$3,820,350 and \$5,145,793, were received from the federal government and the State of Michigan during 2004 and 2003, respectively, and were recorded as additions to both property, buildings, and equipment and to Authority revenue.

Capital Region Airport Authority

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2004	2003
Operating loss	\$ (3,650,153)	\$ (3,115,587)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	3,122,935	3,143,469
Decrease in assets:		
Accounts receivable	116,034	183,878
Due from other governmental units	-	824,730
Other current assets	33,108	50,545
Increase (decrease) in liabilities:		
Accounts payable	381,168	100,469
Compensated absences payable	(1,872)	(1,683)
Net cash provided by operating activities	<u>\$ 1,220</u>	<u>\$ 1,185,821</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Description of Organization and Summary of Significant Accounting Policies

Reporting Entity - Capital Region Airport Authority (the Authority) was established on October 1, 1970, as a result of Public Act No. 73 of the Public Acts of 1970. The law took immediate effect upon the Governor's signature on July 16, 1970. The Authority is charged with the responsibility of all public airport facilities within the jurisdictional confines of the Authority. As required by accounting principles generally accepted in the United States of America, these financial statements present the Capital Region Airport Authority. No other component units have been combined into the Authority's basic financial statements.

Basis of Presentation - The financial statements include the accounts of the Authority and have been prepared on the accrual basis. The significant accounting policies of the Authority, as summarized below, conform with proprietary fund accounting and reflect practices appropriate to the regulatory environment in which it operates.

Basis of Accounting - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cash and Cash Equivalents - The Authority considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Investments - Investments are stated at fair value, based on quoted market prices, and consist principally of mutual funds and governmental securities.

Other Assets - Other assets primarily include the bond issue costs on the revenue bond issues, which are being amortized using the interest method over the term of the respective issues.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Cost of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than \$5,000 and an estimated useful life of excess of one year.

Costs incurred by the Authority for capital improvement projects are accumulated as airport improvements in progress until the project becomes operational, at which time such costs are transferred to the appropriate capital asset account.

Revenue/Expenses - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

The Authority's deposits and investments are included on the balance sheet under the following classifications:

	<u>2004</u>	<u>2003</u>
Deposits and investments	\$ 1,720,284	\$ 641,540
Restricted assets	<u>5,397,316</u>	<u>4,738,972</u>
Total	<u>\$ 7,117,600</u>	<u>\$ 5,380,512</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

	<u>2004</u>	<u>2003</u>
Bank deposits	\$ 4,072,296	\$ 1,472,715
Investments	<u>3,045,304</u>	<u>3,907,797</u>
Total	<u>\$ 7,117,600</u>	<u>\$ 5,380,512</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not cleared, or of deposits-in-transit) at \$4,080,632 and \$1,839,320 in 2004 and 2003, respectively. Of that amount, \$413,130 and \$410,691 was covered by federal depository insurance, and \$3,667,502 and \$1,428,629 was uninsured and uncollateralized in 2004 and 2003, respectively. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - State statutes authorize the Authority to invest in obligations of, or guaranteed by, the U.S. Government, or federal agency obligation repurchase agreements, obligations of a state of the United States or of a political subdivision of a state of the United States that are rated in 1 of 3 highest categories by a nationally recognized rating agency, mutual funds, or common trust funds composed of investment vehicles that are allowable for direct investment, certificates of deposit, savings and deposit accounts of banks, or credit unions which are federally insured, and commercial paper rated within the highest category established by a nationally recognized rating service.

The Authority's investments are categorized in the following table to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Authority's name.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

<u>June 30, 2004</u>	<u>GASB Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Government securities	<u>\$ 349,203</u>	None	None	\$ 349,203
Mutual funds				<u>2,696,101</u>
Total investments				<u>\$ 3,045,304</u>

<u>June 30, 2003</u>	<u>GASB Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Government securities	<u>\$ 1,213,334</u>	None	None	\$ 1,213,334
Mutual funds				<u>2,694,463</u>
Total investments				<u>\$ 3,907,797</u>

Mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above. The mutual funds are registered with the SEC.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 3 - Restricted Assets

The restricted funds at June 30, 2004 and 2003, are required under the Authority's 2002 revenue bond resolutions and the provisions of the Federal Passenger Facility Charge Program. These funds, which consist of cash and investments, are segregated into the following funds:

	Required Reserves	
	2004	2003
Passenger Facility Charge Deposits	\$ 1,841,816	\$ 1,464,422
Operations and Maintenance Account	616,000	526,000
Bond Interest and Redemption Fund	-	-
Bond Reserve Account	1,458,500	1,446,550
Renewal and Replacement Account	250,000	250,000
Operations and Maintenance Reserve Account	1,231,000	1,052,000
Total restricted assets	<u>\$ 5,397,316</u>	<u>\$ 4,738,972</u>

Requirements of the following reserve account must be maintained if not expended on approved projects:

- **Passenger Facility Charge Deposits** - These deposits are funds collected from passengers in conjunction with the Federal Passenger Charge Program. The funds may only be used for projects approved by the Federal Aviation Administration in the Authority's Record of Decision.

Requirements of the following reserve accounts must be maintained at all times:

- **Operations and Maintenance Account** - This account was created to maintain a reserve for the next month's budgeted amount of operations and maintenance.
- **Bond Interest and Redemption Fund** - This fund is restricted for payment of the current portion of bond principal and interest. Payments due July 1st were paid prior to June 30th.
- **Bond Reserve Account** - This account maintains a reserve for the lesser of the following: 10 percent of the stated principal amount of the Series 2002 bonds, the maximum annual principal and interest requirements on the Series 2002 bonds, or 125 percent of the average annual principal and interest requirements on the Series 2002 bonds.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 3 - Restricted Assets (Continued)

Requirements of the following reserve accounts must be fulfilled prior to the issuance of additional debt of a prior or equal standing with respect to rights in liquidation of existing debt.

- **Renewal and Replacement Account** - This account was created to establish and maintain a reserve of \$250,000 to be used to pay unanticipated emergency repairs at the Authority's facilities.
- **Operations and Maintenance Reserve Account** - This account maintains a reserve for operations and maintenance expenses equal to two months of the cost of operating and maintaining Authority facilities during the immediately preceding fiscal year of the Authority. This fund was also established to be in accordance with specific lease agreements with several airlines.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	July 1, 2003	Additions	June 30, 2004	Depreciable Life-Years
Capital Assets not Being Depreciated				
Land				
Capital City Airport	\$ 8,876,261	\$ -	\$ 8,876,261	
Mason Jewett Field	518,685	341,954	860,639	
Total	9,394,946	341,954	9,736,900	-
Airport Improvements in Progress	6,778,312	4,404,391	11,182,703	-
Total capital assets not being depreciated	16,173,258	4,746,345	20,919,603	
Other Capital Assets				
Land Improvements				
Capital City Airport	8,873,452	-	8,873,452	10-20
Buildings and Improvements				
Capital City Airport	32,583,538	-	32,583,538	
Mason Jewett Field	204,803	-	204,803	
Total	32,788,341	-	32,788,341	10-20
Runways and Taxiways				
Capital City Airport	20,351,870	-	20,351,870	
Mason Jewett Field	2,326,702	-	2,326,702	
Total	22,678,572	-	22,678,572	20
Machinery and Equipment				
Capital City Airport	6,853,552	237,013	7,090,565	
Mason Jewett Field	37,186	-	37,186	
Total	6,890,738	237,013	7,127,751	3-10
Master Plan				
Capital City Airport	532,891	-	532,891	
Mason Jewett Field	243,000	-	243,000	
Total	775,891	-	775,891	20
Subtotal other capital assets	72,006,994	237,013	72,244,007	
Less accumulated depreciation	39,641,289	3,122,935	42,764,224	
Other capital assets, net	32,365,705	(2,885,922)	29,479,783	
Net total capital assets	\$ 48,538,963	\$ 1,860,423	\$ 50,399,386	

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 4 - Capital Assets (Continued)

Airport improvements in progress consist of the following:

	2004	2003
Federal projects:		
Project 3000 - Apron Rehabilitation/Terminal and Baggage Claim Expansion	\$ -	\$ 27,863
Project 3202 - Baggage Claim Expansion	26,476	-
Project 3202 - Taxiway/Roadway Construction	390,561	389,351
Project 3202 - Lansing Security Upgrades	6,038,582	5,099,293
Project 3403 - Lansing Security Upgrades	2,918,684	364,000
Project 0703 - Mason Land Acquisition	-	323,719
Authority projects:		
Business Park	226,250	226,250
Sanitary Sewer System	35,780	28,389
Sanitary Sewer System Extension	222,076	223,507
MUFIDS Upgrades	447,588	60,000
ARFF Road Construction - West	39,940	35,940
Runway Extension	3,400	-
Land Acquisition	277,174	-
Economic Impact Study	38,341	-
Master Plan/Part I 50	353,798	-
Holdroom/Board Room Renovations	28,315	-
Environmental Assessment/Runway Extension	51,979	-
Preliminary Engineering	81,266	-
Environmental Assessment/West Service Rd.	2,493	-
Total	<u>\$ 11,182,703</u>	<u>\$ 6,778,312</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Revenue Bonds Payable

Revenue bonds payable consist of the following at June 30:

	Beginning Balance	Current Year Reductions	Ending Balance
Series 2002 - A	\$ 530,000	\$ (195,000)	\$ 335,000
Series 2002 - B	14,800,000	(550,000)	14,250,000
Total revenue bonds payab	15,330,000	(745,000)	14,585,000
Less bond discount	(148,983)	8,277	(140,706)
Deferred amount on refunding of bond:	(518,459)	28,803	(489,656)
Revenue bonds payable	<u>\$ 14,662,558</u>	<u>\$ (707,920)</u>	<u>\$ 13,954,638</u>

The Authority issued revenue bonds in the amount of \$725,000 dated March 15, 2002 (Series A), for the purpose of refunding Series 1985 bonds, which was for constructing a hangar, office, and training facility, and making certain related site improvements. The bonds bear interest at an average rate of 3.0 percent. The bonds are secured by a lien upon the net revenue of the Authority; future improvements, enlargements, extensions or repairs; and payments made to the Authority by any other governmental entity.

The annual requirements to amortize the Series 2002-A revenue bonds and related interest at June 30, 2004, are as follows:

Year Ending June 30	Principal Due July 1	Interest Due July 1 and January 1	Total
2005	\$ -	\$ 5,555	\$ 5,555
2006	205,000	7,830	212,830
2007	130,000	2,275	132,275
Total	<u>\$ 335,000</u>	<u>\$ 15,660</u>	<u>\$ 350,660</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 5 - Revenue Bonds Payable (Continued)

The Authority issued revenue bonds in the amount of \$15,330,000 dated March 15, 2002 (Series B), for the purpose of refunding Series 1992 bonds which was for the purpose of constructing new hold rooms, ticket counters, offices, and other renovations and improvements to the terminal building, and improvements to the parking lot and terminal circulation roadways. The bonds bear interest at an average rate of 4.9 percent. The bonds are secured by a first lien upon the net revenue, as defined, of the Authority.

The annual requirements to amortize the Series 2002-B revenue bonds and related interest at June 30, 2004, are as follows:

Year Ending June 30	Interest Due		Total
	Principal Due July 1	July 1 and January 1	
2005	\$ -	\$ 336,563	\$ 336,563
2006	570,000	663,720	1,233,720
2007	620,000	643,155	1,263,155
2008	610,000	620,100	1,230,100
2009	635,000	595,346	1,230,346
2010	670,000	568,250	1,238,250
2011	695,000	538,896	1,233,896
2012	730,000	507,713	1,237,713
2013	765,000	472,779	1,237,779
2014	805,000	435,672	1,240,672
2015	845,000	395,650	1,240,650
2016	885,000	352,823	1,237,823
2017	935,000	307,323	1,242,323
2018	985,000	259,323	1,244,323
2019	1,035,000	208,305	1,243,305
2020	1,095,000	153,169	1,248,169
2021	1,155,000	94,107	1,249,107
2022	1,215,000	31,894	1,246,894
Total	<u>\$ 14,250,000</u>	<u>\$ 7,184,788</u>	<u>\$ 21,434,788</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 6 - Compensated Absences

Compensated absences activity for the years ended June 30, 2004 and 2003, was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
2004					
Compensated absences	\$ 483,117	\$ -	\$ 1,872	\$ 481,245	\$ 154,789

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
2003					
Compensated absences	\$ 484,800	\$ -	\$ 1,683	\$ 483,117	\$ 132,516

Note 7 - Leases

The Authority leases land, terminal space, and offices to various entities under the terms of noncancelable operating leases. Substantially all leases include a provision for future rental adjustments based upon changes in the consumer price index. Rental receipts include minimum rentals plus contingent rentals based on sales volume.

Rental income from the operating leases consisted of the following:

	2004	2003
Minimum rental	\$ 2,561,222	\$ 2,659,202
Contingent rentals	2,110,702	1,820,620
Total	\$ 4,671,924	\$ 4,479,822

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 7 - Leases (Continued)

Future minimum lease rentals to be received under noncancelable operating leases, with initial or remaining lease terms in excess of one year, as of June 30, 2004, are:

2005	\$ 803,923
2006	867,945
2007	742,739
2008	472,350
2009	414,167
Later years through 2051	<u>11,836,993</u>
Total	<u>\$ 15,138,117</u>

Note 8 - Defined Benefit Pension Plan

Plan Description - The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution from the employees of 0.36, 0, and 4.66 percent from Capital City Airport Chapter of Local 1390, Public Safety Department Unit, and Public Safety Department Sergeants Unit, respectively.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the years ended June 30, 2004 and 2003, the Authority's annual pension cost was equal to the Authority's required and actual contribution. The annual required contribution for 2004 and 2003 was determined as part of an actuarial valuation at December 31, 2003 and December 31, 2002, respectively, using the entry age normal cost method. Significant actuarial assumptions used include (a) 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent, and (c) additional projected salary increases ranging from zero to 4.16 percent per year, depending on age, attributable to seniority and merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 410,891	100%	\$ -
2003	\$ 345,710	100%	\$ -
2002	\$ 321,523	100%	\$ -

Valuation Date	Actuarial Asset Values	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2003	\$ 6,782,953	\$10,477,093	\$ 3,694,140	65%	\$ 2,718,626	136%
December 31, 2002	\$ 6,268,146	\$ 9,717,944	\$ 3,449,798	65%	\$ 2,495,171	138%
December 31, 2001	\$ 6,064,901	\$ 8,702,628	\$ 2,637,727	70%	\$ 2,342,036	113%

Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Post-Employment Benefits

The Authority provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 19 employees are eligible. The Authority includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$171,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

Other Supplemental Information

Capital Region Airport Authority

Schedule of Operating Revenue and Expenses Budget and Actual

Year Ended June 30						
	2004			2003		
	Actual	Budget	Favorable (Unfavorable)	Actual	Budget	Favorable (Unfavorable)
Operating Revenue						
Airfield	\$ 1,544,540	\$ 1,532,180	\$ 12,360	\$ 1,512,549	\$ 1,547,391	\$ (34,842)
Terminal	2,877,090	2,772,899	104,191	2,555,233	2,806,218	(250,985)
Leased sites	2,139,504	1,953,241	186,263	1,845,215	1,859,721	(14,506)
Airline security screening	63,911	63,900	11	114,302	63,900	50,402
Mason Jewett Field	234,655	234,847	(192)	142,558	56,224	86,334
Grant revenue	-	-	-	172,397	-	172,397
Total operating revenue	6,859,700	6,557,067	302,633	6,342,254	6,333,454	8,800
Operating Expenses, Exclusive of Depreciation						
Airfield	625,625	626,607	982	612,752	639,638	26,886
Terminal	1,278,529	1,192,451	(86,078)	1,267,388	1,200,762	(66,626)
Fire and security	1,543,526	1,603,506	59,980	1,260,560	1,748,978	488,418
Administrative	2,648,695	2,511,981	(136,714)	2,884,726	2,335,380	(549,346)
Mason Jewett Field	245,416	243,216	(2,200)	178,732	46,166	(132,566)
Airport development	1,045,127	2,000,000	954,873	110,214	-	(110,214)
Total operating expenses	7,386,918	8,177,761	790,843	6,314,372	5,970,924	(343,448)
Operating Income (Loss), exclusive of depreciation	\$ (527,218)	\$ (1,620,694)	\$ 1,093,476	\$ 27,882	\$ 362,530	\$ (334,648)

September 10, 2004

To the Board of Directors
Capital Region Airport Authority

In connection with our audit of the financial statements of the Capital Region Airport Authority (Authority) for the year ended June 30, 2004, we offer the following comments and recommendations for your review and consideration:

Monitoring of Accounting Functions

With the departure of the Finance Director in November 2003, the bookkeeper assumed more responsibility for the daily accounting functions. We recommend someone independent of the preparation process review documentation on a regular basis. This should be performed by the Finance Director position.

Once the new Finance Director was in place in March 2004, it is our understanding this review was taking place; however, the documentation of the review was not evident during our audit procedures. We recommend initialing the reviewed documents for support of this control. This documentation offers further support that the review is being done on a timely basis. For example, this review may include the documentation of that review by initialing the various reconciliations and/or supporting journals. These reconciliations and/or supporting journals would include items such as bank reconciliations, payment of invoices and/or cash disbursements, review of cash receipts for the proper posting to customers, review of outstanding receivables for timeliness of payment, payroll registers, monitoring of PFC revenue to ensure that all airlines are paying timely, and review of the detailed general ledger.

Cash Controls

Wire Transfers - Only one signature is currently required for wire transfers. We recommend authorizing two more individuals for the wire transfer approval process to have a minimum of two signatures on the transaction.

Cancelled Checks - Currently cancelled checks are received through images on a CD Rom sent by the bank. We would recommend someone other than the bookkeeper to review cancelled checks periodically to detect fictitious vendors and endorsements and inappropriate dollar amounts.

Security of Blank Checks - We noted that blank checks are not being securely stored at the Authority. We recommend storing blank checks in a safe or locked file cabinet that has limited access by other staff. This procedure would limit the possibility of stolen checks and unauthorized disbursement of the Authority's funds.

Debt Covenants

The Revenue Bonds include certain debt covenants that the Authority must review and adhere to. The covenants relate to cash amounts that must be reserved until the bond's maturity and a debt service ratio that must be met. These amounts should be reviewed during the year and the requirements calculated as of June 30, 2004. We recommend the Authority review these covenants to ensure that the Authority is satisfactorily complying with these covenants.

Federal and State Construction Projects

The Authority has not been able to maintain tracking schedules for construction projects purchased with federal and state funds. The lack of tracking these projects results in interim financial statements that do not accurately reflect the construction in progress, fixed asset, and capital contribution accounts. The purpose of interim financial statements is to provide status of monthly activity, and to allow an individual to review and detect unrecorded transactions. With the current system maintained by the State of Michigan of recording these construction projects, an individual cannot determine the proper amount of activity taking place.

We recommend that the Authority obtain a record of the progress of all federal and state construction projects from the State of Michigan periodically. We also recommend reconciling the transactions to the data maintained at the Authority and recording all necessary amounts on the internal financial statements. In the past, we have obtained this information and made the adjustments necessary.

Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets. This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

Retiree Health Care Benefits (Continued)

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007 or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

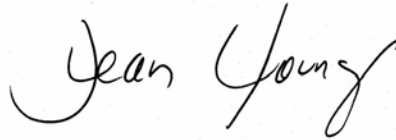
We are grateful for the opportunity to be of service to the Authority. The cooperation extended to us by the Authority's staff throughout the audit was greatly appreciated. Should you wish to discuss any of the items in this report, we would be happy to do so.

Very truly yours,

PLANTE & MORAN, PLLC



Mary J. Schafer, CPA
Partner



Jean M. Young, CPA
Associate